



CITY OF KIRKLAND
Department of Public Works
123 Fifth Avenue, Kirkland, WA 98033 425.587.3800
www.ci.kirkland.wa.us

MEMORANDUM

To: Marilynne Beard, Interim City Manager

From: Ray Steiger, P.E., Interim Public Works Director
Donna Burris, Internal Services Manager

Date: May 20, 2010

Subject: CITY HALL / FACILITIES PLANNING

RECOMMENDATION:

City Council review this update on facility needs and options and provide direction to staff regarding the recommended actions.

BACKGROUND DISCUSSION:

This memo summarizes the needs and details of three key facility elements for the City:

- City Hall
- Public Safety Campus
- Maintenance Center

Staff has looked into a number of factors and options for providing additional space for City staff, particularly for public safety staff that will be hired as a result of annexation. At this time, staff is proposing recommendations and seeking feedback from the City Council.

City Hall/Public Safety

As the annexation implementation proceeds, additional facilities are necessary to accommodate staff and equipment that will be added to serve the area. In November 2007, staff presented preliminary findings for the additional facilities that envisioned an expansion to City Hall, a new, independent, Public Safety Building, and an expansion of the Maintenance Center; however costs were trending significantly above the original estimates. The Public Safety Building alone was estimated to cost in the neighborhood of \$50 million. On March 2, 2010, City Council asked staff to identify alternatives to the original facilities plan which could accommodate the annexation but reduce costs of the overall facilities. Staff was directed to develop more complete plans and projected costs for the expansion at City Hall and prepare a financing plan. Since that time two separate options have been explored and costs have been assembled:

Option A - City Hall/Public Safety Expansion (“Hybrid Option”)

This option includes a City Hall Expansion primarily to accommodate Police Department space needs. The option reallocates the remaining space to other City functions currently housed in City Hall. Human Resources and Parks Administration would remain at 505 Market Street. The size of this facility which would include an adjacent three level parking structure south of the existing City Hall is as follows:

City Hall/Public Safety (“Hybrid Option”)	
Total Current Square Footage	70,258 sf
<u>Expansion Square Footage (Approx.)</u>	
Additional Square Footage in City Hall:	28,884 sf
Parking Garage Square Footage:	79,900 sf
Police Support Areas in Parking Garage:	40,100 sf
Total Gross SF (City Hall w/Expansion):	99,142 sf
Parking Garage SF w/Police Support Areas:	120,900 sf

Under this option, additional actions would be required to meet interim and intermediate needs:

- Secure on or off-site parking space to accommodate additional police and staff vehicles to meet interim needs:
 - Opportunity 1: Utilize an existing parking agreement with the First Baptist Church of Kirkland (southeast corner of 1st Street and 7th Ave) to accommodate additional police and staff vehicles for annexation through the City Hall construction period.
 - Opportunity 2: Construct a temporary parking lot on the Carter House property (vacant City-owned lot south of City Hall) that would be removed upon the start of construction of the parking garage.

Due to the cost of constructing temporary parking, staff recommends using the Baptist church parking lot for staff parking and put new police and staff vehicles in the City Hall parking lot until a new facility is constructed.

- Lease space to relocate current police evidence storage from the Municipal Court building to another location until the City Hall/Public Safety Expansion is completed (the Municipal Court needs expansion to accommodate annexation also);
- Remodel the Municipal Court in space vacated by Police for additional court room(s) and staff space; and
- Temporarily relocate staff at City Hall including Police Department to an off-site facility during construction period.

The cost of the Hybrid Option City Hall expansion project, temporary parking and the Municipal Court remodel are estimated at approximately \$60 million excluding the cost of temporarily relocating all City Hall operations during construction of the expansion.

Option B – Separate Public Safety Building

Subsequent to the March study session, an opportunity arose for the City to pursue purchase of an existing building situated on property in the Totem Lake area that would allow the Police and Municipal Court functions to be incorporated into one centrally-located facility. The City received an estimated cost for this option in early May and determined that this alternative was less costly and less disruptive. Based on this information, the City provided a letter of intent to negotiate a Purchase and Sale Agreement with representatives of the property owners. If the City Council decides to pursue this option, staff is requesting City Council authorization for the City Manager to execute a purchase and sales agreement subject to a 60 day feasibility period (see separate agenda item under “New Business” during the regular meeting. Staff is also working with the Planning and Community Services Department on review of potential land use issues that is described in a separate memo (Attachment A to this memo).

Under this Option, City Hall facilities would not need to be expanded immediately, however a remodel of the City Hall facility would be necessary to provide efficiency, both functionally and energy-wise, and to return functions now at 505 Market Street and the recently renovated City Hall Annex to City Hall. For comparison, the size of the facility envisioned is:

Separate Public Safety Building (incl Municipal Court)	
Total Current Square Footage	102,429 sf
Additional Police Support Building (to be added)	21,000 sf
Total Gross Square Footage:	123,429 sf

Additional actions needed to pursue a separate public safety building include:

- Secure on or off-site parking space to accommodate additional police and staff vehicles to meet interim needs:
 - Opportunity 1: Utilize an existing parking agreement with the First Baptist Church of Kirkland (southeast corner of 1st Street and 7th Ave) to accommodate additional police and staff vehicles for annexation through the City Hall construction period.
 - Opportunity 2: Construct a temporary parking lot on the Carter House property (vacant City-owned lot south of City Hall) that would be removed upon the start of construction of the parking garage.

Due to the cost of constructing temporary parking, staff recommends using the Baptist church parking lot for staff parking and put new police and staff vehicles in the City Hall parking lot until a new facility is constructed.

- Remodel City Hall after the Public Safety Building is completed;
- Return 505 Market and City Hall Annex functions to remodeled City Hall

The estimated costs to remodel an existing building for Public Safety with a new separate auxiliary building for Police support functions, remodel the current City Hall space, and remodel areas of the Maintenance Center would be approximately \$50M.

Maintenance Center

In lieu of a major expansion at the Maintenance Center Yard, Council approved the exploration of the following recommended strategies to meet potential interim and intermediate needs for the Maintenance Center:

- Add storage mezzanines to Buildings B, C, and E
- Enclose the covered mechanic bays and add lifts on the south side of Building B.
- Add parking stalls to the east side of Building E and expand surface parking spaces at Administration Building to accommodate additional visitor, staff, and city pool vehicle parking
- Lease additional warehouse space with minimal office space to provide more shop space and parking in a facility close to current Maintenance Center
- Lease space central to the City (post-annexation City limits) and relocate Parks Operations & Maintenance

Preliminary review, further discussion with end users, and early concepts for the Maintenance Center has resulted in the following options:

- Add storage mezzanines to Building B and C only; Mezzanines at Building E is not necessary
- Enclose the covered mechanic bays and add lifts on the south side of Building B. However, constructing two vehicle maintenance bays at a separate Public Safety Building may be an option in lieu of expanding Building B. This would allow for more productive staff time performing vehicle maintenance and less time spent transporting police vehicles back and forth for maintenance needs (further study is needed for this option which is not currently included in the estimated cost of the Public Safety Building).
- Conceptually, fifteen (15) parking spaces may be added to the Administration Building parking lot; dependent on City code requirements. Parking stalls to the east side of Building E is not being pursued due to continued vandalism of vehicles when parked in that area overnight; Additionally, the area is currently used for storage of materials
- In lieu of leasing additional warehouse space adjacent to the current Maintenance Center or an off-site space dedicated to Parks, pursue a fallow lot for use as a satellite facility for storage of materials and equipment in the north end of the future City limits accommodating both Public Works and Parks Operations and Maintenance.

Comparison of Options

The following table compares the cost of the two options presented above.

	Option A "Hybrid"	Option B Public Safety Building
City Hall Expansion/Remodel*	61,214,155	10,000,000
Temporary Parking**	152,600	152,600
Public Safety Building	0	37,869,517
Municipal Court	1,200,000	0
Maintenance Center	1,910,000	1,910,000
Total	64,476,755	49,932,117

*Assumes two year relocation lease and operating costs

**Only needed if temporary parking constructed on Carter property

Based on the significant cost difference and degree of potential disruption for Option A, staff recommends pursuing Option B and executing a purchase and sale agreement pending a sixty day feasibility period.

Financing Plan

The following table summarizes actions recommended by staff, which will be discussed in more detail at the Council Study Session and as summarized in an accompanying memo by Finance Director Tracey Dunlap.

	2010	2011	2012	2013	2014	Total
Public Safety Building	11,500,000	3,000,000	20,696,517	2,400,000	0	37,869,517
Temporary Parking*	152,600	0	0	0	0	152,600
Remodel City Hall	0	0	0	3,000,000	7,000,000	10,000,000
Maintenance Center	50,000	420,000	1,440,000	0	0	1,910,000
Total Costs	11,702,600	3,420,000	22,409,517	5,400,000	7,000,000	49,932,117

**Only needed if temporary parking is constructed on Carter property.*

Recommendations and Direction Needed

In summary, Staff recommends pursuing the following course of action to address space needs for City Hall, Municipal Court, and the Maintenance Center:

1. Move forward with a separate Public Safety Building to accommodate the Police Department and Municipal Court functions.
2. Authorize the City Manager to enter into a purchase and sale agreement for the purchase of property for a public safety building
3. Remodel City Hall and relocate Human Resources and Parks Administration back to City Hall.
4. Update parking agreement with First Baptist Church of Kirkland for weekday use of their parking lot located at the southeast corner of 1st Street and 7th Avenue for an extended period in lieu of construction of a temporary parking lot at the "Carter House" property.
5. Surplus 505 Market and Municipal Court buildings to provide a portion of the financing for new and remodeled facilities.
6. Build storage mezzanines in Maintenance Center Buildings B and C to accommodate new staff and materials storage.
7. Enclose the covered mechanic bays and add lifts to the south side of Maintenance Center Building B or add two vehicle bays to the Public Safety Building location to accommodate increased vehicle maintenance needs.
8. Expand surface parking spaces at Maintenance Center Administration Building to accommodate additional visitor, staff, and city pool vehicle parking.



CITY OF KIRKLAND

Planning and Community Development Department
123 Fifth Avenue, Kirkland, WA 98033 425.587-3225
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MEMORANDUM

To: Donna Burris, Internal Services Manager

From: David Barnes, Project Planner

Date: May 20, 2010

Subject: Zoning Requirements for TL4B

The Planning Department has begun internal review of a property under consideration by the City for purchase with the intent of using the site for a new public safety building. The site is located in Totem Lake neighborhood's TL4B Zone. A government facility is an allowed use in this zone. The general regulation of Kirkland Zoning Code 55.31.4, which applies to all uses within the TL4B zone, requires that 50% of the ground floor areas of existing and new buildings be used for retail establishments, restaurants, taverns, hotels and motels. The proposed use of a government facility without the retail component does not meet this requirement.

However, the Planning Department believes that the regulations were not intended to require retail uses on the ground floor of government facilities. A Planning Director's interpretation will be prepared to exclude government facilities from the above referenced requirement. This will allow the subject site to be considered for a new public safety building without ground floor retail.

We are aware this issue is time sensitive and will work quickly to resolve it.

If you have any questions please contact me at 425-587-3250.

cc: Eric Shields
Nancy Cox



CITY OF KIRKLAND
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MEMORANDUM

To: Marilynne Beard, Interim City Manager
From: Tracey Dunlap, Director of Finance and Administration
Date: May 19, 2010
Subject: Facilities Financing Analysis

RECOMMENDATION:

City Council review the facilities financing analysis and provide direction to staff on related policy issues.

BACKGROUND DISCUSSION:

The purpose of this analysis is to identify financial resources that could be available to finance the City's facilities needs, particularly a Public Safety Campus and remodels at the Maintenance Center and City Hall¹. This analysis is based on the following facilities configuration and project cost estimates:

Summary of Facilities Cost Estimates

	2010	2011	2012	2013	2014	Total
Public Safety Building - Police/Court	\$ 11,500,000	\$ 3,000,000	\$ 20,969,517	\$ 2,400,000	\$ -	\$ 37,869,517
Temporary Parking	152,600	-	-	-	-	152,600
Remodel City Hall	-	-	-	3,000,000	7,000,000	10,000,000
Maintenance Center Improvements	50,000	420,000	1,440,000	-	-	1,910,000
Total Estimated Costs	\$ 11,702,600	\$ 3,420,000	\$ 22,409,517	\$ 5,400,000	\$ 7,000,000	\$ 49,932,117

*Parking on Carter House Property and NE 188th Signage for Court

Potential Sources:

Cash Resources

Available capital reserves: There are three capital-related reserves that could be made available for the identified projects:

- The City collects a ½% Real Estate Excise Tax (REET) on real estate transactions. Half of the tax (¼%) is dedicated for transportation projects (REET 2). The other ¼% is available for other types of municipal capital projects (REET 1), including facilities. The projected 2010 REET 1 ending balance is \$6.3 million, of which \$1.65 million is set aside as a minimum balance based on one year's worth of planned REET 1 use in the CIP. REET 1 is also the source of Parks debt service payments in the event that Parks Impact Fee revenues fall short of meeting those payments. Due to the decline in impact fee receipts, staff recommends reserving an additional \$1 million for potential interest backfill. If not needed for interest backfill, these funds could also

¹ If the separate public safety facility project does not materialize, the cost estimate for the alternative of building out the City Hall site is \$60.5 million and involves significant operating disruption and costs associated with relocating existing City staff. The financing plan would need to be updated in this event and the higher cost would represent a significant additional financial drain on City resources.

be used for land acquisition, consistent with prior practice. This leaves approximately \$3.6 million available toward the facilities needs.

- The Building and Property Reserve balance of \$1.9 million is available as a funding source for facility needs. This reserve does not have a target and has been used for such projects in the past as land acquisition and building improvements. Examples of past projects include all or partial funding for the Carter house, McAuliffe property, 505 Market building and Heritage Hall.
- The Facilities Expansion Reserve does not have a predetermined target and has a projected 2010 ending balance of \$800,000. These funds were set aside for the specific purpose of funding facilities needs.

These cash resources total \$6.4 million (as summarized below) and are available to provide a source for a portion of the upfront design and acquisition costs, prior to issuing long-term debt.

Reserves	REET 1	Building & Property Reserve	Facilities Expansion Reserve (157)	TOTAL
2010 Estimated Ending Cash Balance	6,287,181	1,934,669	800,000	9,021,850
LESS: Target	(1,653,500)	-	-	(1,653,500)
LESS: Set aside for debt service backfill	(1,000,000)	-	-	(1,000,000)
Potential Available towards Facilities	3,633,681	1,934,669	800,000	6,368,350

Grant Funding: The City has received a \$750,000 state grant for Phase I planning and design funding for a public safety campus that would provide a wide range of services to citizens that are engaged in the criminal justice system. Of this amount, \$9,375 is retained by the state for administration and \$322,056 was used toward purchase of the existing Municipal Court building. The remaining \$418,569 is available toward the design of the public safety improvements.

Potential sale of 505 Market St. building and the Municipal Court: When the remodel of City Hall and the Public Safety building are completed, the City could sell the 505 Market St. building and the Municipal Court. The City paid \$1.75 million for the 505 Market St. building in 2001. The Municipal Court building was purchased in 2009 for \$2.7 million. The intent would be that the sale price of these buildings would at least recover the original purchase prices, although the current market might not support those prices. These funds would only be available once the projects are completed and the buildings could be sold, but they could repay interfund loans that could be used for cash flow to fund the City Hall improvements. The timing of the sale would also be impacted if the market would not support recovery of the purchase costs.

NEC Funds: The Northeast King County Cities (NEC) had been evaluating potential regional jail sites using funds from the proceeds of the sale of the Bellevue site. That evaluation process has ended and Kirkland's share of the remaining proceeds (\$293,000) is available for use toward securing additional jail beds, which is part of the planned public safety facility.

Project Sinking Fund Balances: The City finances on-going major maintenance requirements of facilities through contributions to a facilities sinking fund. Since improvements to City Hall have been expected to occur in the near future, selected projects have been deferred, such as carpet replacement. In addition, there are planned projects that will be incorporated into the renovations, so the sinking fund payments can be diverted to those needs. The Facilities Division has identified \$1.04 million in deferred or planned projects that will not be needed and those balances can be made available for financing of the projects.

Previously Funded CIP Project: In anticipation of upcoming facilities projects, the unspent portion of previously funded police facilities projects (about \$957,000) had been set aside for use on a new public safety facility. A portion of these funds (\$650,000) was returned to the General Fund as part of the

funding for the early hiring of police officers for annexation, leaving \$307,000 available toward the public safety facility. If all of the \$650,000 is not needed to finance the annexation hiring, a portion of those funds could be returned to the facilities CIP.

The table below summarizes the known and potential cash resources available toward the projects.

Summary of Cash Resources	TOTAL
Reserves	6,368,350
CTED Grant	418,569
NEC Funds	293,000
Facilities Sinking Fund	1,043,747
Deferred CIP Project	307,000
Subtotal Available Cash	8,430,666
Potential 505 Market/Court Sale	4,450,000
Total Available and Potential Cash	12,880,666

In total, identified cash resources fall in the \$8.4-12.9 million range, assuming that no other expenditures are authorized against these balances.

Types of Debt Financing Available

In the absence of cash resources to finance major facilities projects, the use of debt financing is the main alternative.

The two most common types of tax supported debt issued by cities to fund capital projects are Limited Tax and Unlimited Tax General Obligation Bonds. General Obligation bonds are the most secure type of debt a City can issue because they pledge the "full faith and credit" of the City based on the ability to levy taxes to repay the debt. As a result of the low risk nature of general obligation debt, it has a lower cost of borrowing than other types of debt (i.e. can be issued at lower interest rates).

Unlimited Tax General Obligation (UTGO) Bonds provide new revenue to fund the debt service as they represent debt that is approved by voters for a specific purpose. Citizens must vote by a supermajority (60%) to levy property taxes to repay the debt over a period of years.

Limited Tax General Obligation (LTGO) Bonds (Councilmanic or non-voted bonds) can be issued with approval of the City Council. The debt is repaid from general revenues of the City. It is still based on the City's ability to tax citizens to repay debt, however, it does not provide any additional revenue to fund debt service payments and must be paid from existing revenue sources.

Attachment A summarizes the City's current General Obligation debt outstanding (LTGO of \$6.1 million and UTGO of \$7.0 million). The legal limits on the City's remaining debt capacity are quite large (\$194 million for LTGO and \$779 million for UTGO). However, there are practical limits in terms of affordability (for LTGO which is paid for from existing revenues) and political realities (for UTGO which requires a 60% majority vote).

If voted (UTGO) debt is considered for this project, there are several factors to consider in scheduling the election:

- If a successful election is held before the effective date of annexation, the excess property tax levy imposed would only apply in the existing City limits. The first feasible election date would be the November 2, 2010 General Election. The Council would need to take action to place the question on the ballot no later than August 10, 2010. The City does not have any positions or questions on the General Election ballot, which means that adding this question would increase election costs by an estimated \$75,000-\$95,000.

- For the debt to apply to the entire new City, the election would need to be held after June 1, 2011. The first election date is the August 16, 2011 Primary Election, which means Council action to place the question on the ballot must be taken no later than May 24, 2011. Since the City will likely have positions on the primary ballot, the incremental costs of adding this question would be less than \$2,000.
- Note that, in either case, a supermajority of 60% approval is required. For each \$1 million in voted debt issued, the excess levy rate would be \$0.088/\$1,000 of assessed valuation (AV) if it applies to the existing City only and \$0.063/\$1,000 AV if applied to the existing City and annexation area (based on 2009 AV). For each \$1 million in voted debt issued, the owner of a home assessed at \$500,000 would pay \$44 per year if the tax applied only to the existing City or \$31.50 per year if it applied to the existing City and annexation area.
- Given the uncertainty associated with a voted bond issue, this financing analysis assumes that non-voted debt supported by existing revenues would be used.

Due to the timing of expenditures and the lead time to issue bonds, the option of using interfund loans is available for meeting short-term cash flow needs. An interfund loan is a short-term mechanism to borrow from a fund that has cash balances that are not needed in the near-term, but must be repaid for use by that fund. For example, the utility funds have cash balances that are planned for future use (and can only be used for utility purposes), but are not needed for activities such as system replacement until sometime in the future. The State of Washington defines the minimum acceptable procedures for making and accounting for interfund loans are as follows:

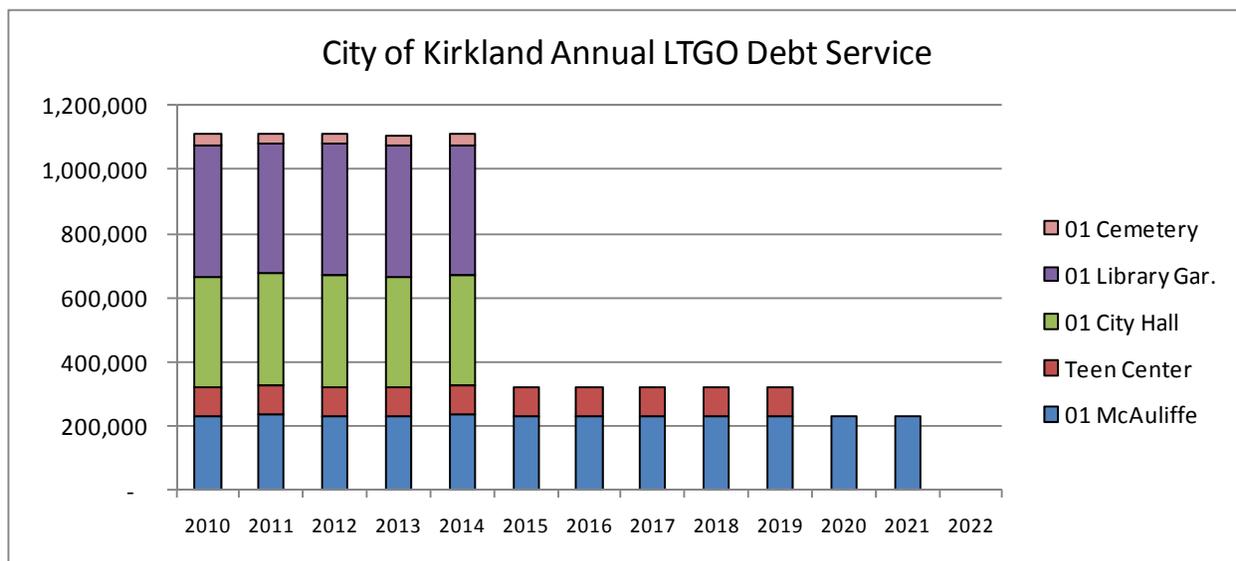
1. The legislative body of a municipality must, by ordinance or resolution, approve all interfund loans, indicating the lending fund, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest (based on the external rate available to the municipality) to be paid to the lending fund.
2. Interest should be charged in all cases, unless:
 - a. The borrowing fund has no other source of revenue other than the lending fund; or
 - b. The borrowing fund is normally funded by the lending fund.
3. The borrowing fund must anticipate sufficient revenues to be in a position over the period of the loan to make the specified principal and interest payments as required in the authorizing ordinance or resolution.
4. The term of the loan may continue over a period of more than one year, but must be "temporary" in the sense that no permanent diversion of the lending fund results from the failure to repay by the borrowing fund. A loan that continues longer than three years will be scrutinized for a permanent diversion of moneys. (Note: these restrictions and limitations do not apply to those funds which are legally permitted to support one another through appropriations, transfers, advances, etc.)
5. Appropriate accounting records should be maintained to reflect the balances of loans in every fund affected by such transactions.

Specific uses of interfund borrowing will be brought forward to the City Council for approval as they are identified. For example, if the purchase of property for the Public Safety building occurs within the next 90 days, an interfund loan from the utilities will be used until it can be repaid from a General Obligation bond issue.

Revenues to Support Debt

Existing City revenues supporting current debt: The graphic below shows the annual debt service on LTGO (councilmanic) bonds by year, which is currently being paid from a variety of general revenue

sources. As this debt is retired, the revenue streams currently dedicated to pay the debt service can be used for new debt without impacting General Fund operating revenues.



The current outstanding principal balance on this debt is \$6.15 million. As this debt is retired, the revenue streams currently dedicated to pay the debt service can be used for new debt without impacting General Fund operating revenues. In 2015, \$750,000 becomes available as the parking garage and City Hall expansion debt is retired. By 2021, all of the outstanding non-voted G.O. debt will be retired. The City has the ability to structure debt and/or to combine the use of reserves and debt in order to take advantage of these revenue streams as they become available. By “wrapping” new debt service around the existing debt service resources as the debt retires, the City could issue up to \$15.0 million² in new bonds, using \$2.6 million in reserves to make interest only payments until the existing debt retires. An example of this strategy is included as Attachment B.

Court lease payments: With the purchase of the Municipal Court building in 2009, the City ceased to make lease payments averaging about \$210,000 per year (base rent) and payments of other costs, for an average annual savings of about \$250,000 per year. This savings was used as a one-time budget balancing strategy in 2010, but the intent is that the revenue stream freed up by the savings could be available to service additional debt (either related to purchase of the Court or the Public Safety building project). Since the Court building would be sold in the event a separate Public Safety building is constructed, this revenue stream could support an additional \$3.4 million in borrowing.

Contribution/Participation of City utilities: A portion of the planned projects benefits the City’s utilities by providing additional space. The Maintenance Center improvements are mostly related to annexation and therefore only the Surface Water Utility (and the Street, Fleet, and Facilities funds) will benefit. However, some utility staff will be added to City Hall. The specific share of the facilities costs that could be allocated to the utilities will need to be developed on more detailed space planning than that currently available. A very rough estimate is that 31% of the Maintenance Center could be allocated to the Surface Water Utility and perhaps 3% of City Hall could be attributed to utilities. These estimates could support an additional \$930,000 in borrowing.

Annexation area revenues: The annexation area financial analysis assumed that the incremental facilities related to providing service in the potential annexation area would be eligible cost for inclusion in the 10-year annexation sales tax credit calculation.

² Debt calculations assume 30 year bonds at 4.4% interest.

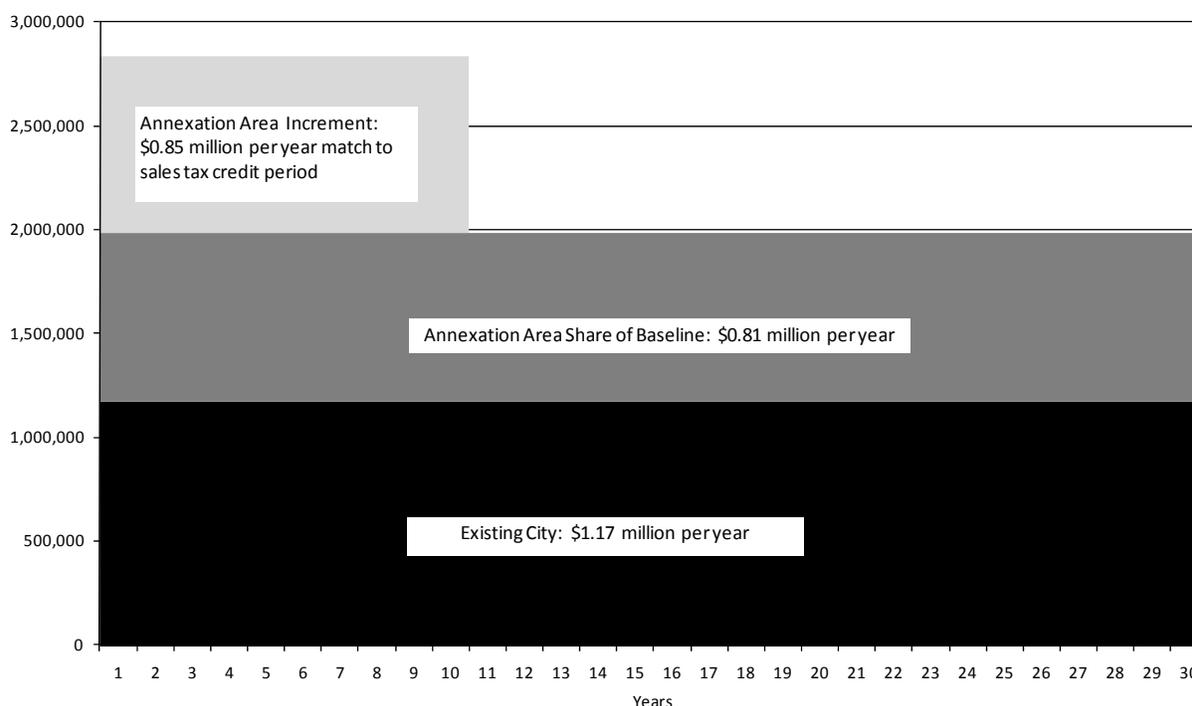
The table that follows summarizes the Facilities Division estimates of the annexation area share of the project costs, based on planned full-time equivalent employees (for all but the maintenance center, all of which are allocable to annexation).

Summary of Facilities Cost Estimates

	Total	Annexation Area %	Annexation Area \$
Public Safety Building - Police/Court	\$ 37,869,517	40%	\$ 15,147,807
Temporary Parking	152,600	30%	45,780
Remodel City Hall	10,000,000	30%	3,000,000
Maintenance Center Improvements	1,910,000	100%	1,910,000
Total Estimated Costs	\$ 49,932,117		\$ 20,103,587

A total of \$20.1 million of the project is allocable to the annexation area, all of which is assumed to be funded with debt. Consistent with the assumptions from the annexation financial analysis, a share of the debt consistent with the per capita debt issued in the existing City will be amortized over the 30-year term, and the amount in excess will be amortized over a 10-year term to coincide with the annexation sales tax credit period. The existing City's portion of the facility debt will be supported by three sources: sources for retiring GO debt service, Court lease savings, and the portion contributed by Utilities. These sources total \$19.36 million. At the City's current population of 49,010, this translates to a per capita debt of \$395. Applying this per capita debt rate to the annexation area population of 33,800 yields \$13.35 million. The remainder, \$6.75 million will be amortized over 10 years. This methodology allows for an equitable allocation of the debt service over the long-term and also matches the annexation area's incremental facilities costs with the anticipated 10-year stream of State sales tax credit. The annexation area's total amount of debt service for the first 10 years is estimated to be \$1.66 million per year. The anticipated debt service payments supported by the annexation area are illustrated in the graph below.

Annual Debt Service for Facilities



The final structure of the debt issue will be determined in consultation with the City's bond advisors, to recognize the "wrap around" scenario for existing City debt, the two different terms to be applied in the annexation area, and the fact that no revenues will be received from the annexation area until later in 2011.

Other Sources: There may be additional financing options that can be pursued, but specific dollar amounts cannot be sized at this time, such as:

- **Additional grants:** Given the public safety and emergency preparedness focus of many of the identified improvements, it is likely that there may be additional grant opportunities that the City can pursue. Staff will continue to work to identify and pursue these sources.
- **Public Safety sales tax:** There is a voted option for King County to impose a 0.3% sales tax increment for public safety purposes that the King County Council is currently considering placing on the ballot. If that tax passes, the City would receive a third of the tax collected in the City (0.1%). If the tax is not imposed by the County, the City has the option of placing the 0.1% increase before the voters.

Total debt that could be supported from identified revenues is in the range of \$39.5 million, assuming use of \$2.6 million in reserves to make initial interest only payments. The timing of debt issues will be dependent on a variety of factors including:

- The projected month-by-month cash flow needs,
- The lead time to issue debt,
- How the debt will be structured to recognize the revenues of the annexation area, which the City will not begin receiving until late 2011.

Since this bond issue will be somewhat unique given the annexation, the City may opt to use a competitive process to select the financial advisor and underwriter for the bond issue. Traditionally, the City has negotiated with the firm that had handled the City's previous debt issues.

Other Considerations:

Early estimates of operating and maintenance (O&M) costs for the remodeled City Hall and the proposed new Public Safety building are approximately \$1.5 million per year. Sinking fund charges for major maintenance for these two buildings is estimated to average about \$320,000 per year. Any increases in operating costs associated with new or expanded facilities will need to be factored into the operating budget.

Draft revisions to the City's debt management policy have been reviewed by the Finance Committee and were submitted for review by the Association of Public Treasurers of the United States & Canada (APT US&C) on April 5, 2010. We hope to receive feedback in June and plan to bring the recommended changes forward for consideration by the full City Council in advance of any potential debt issues.

Summary:

The potential sources identified in this memorandum approach the amount required to finance the \$49.9 million estimated project cost, as summarized in the table that follows. As month-by-month cost estimates are developed, the specific timing of the use of interfund borrowing, cash resources, and long-term debt issues will be identified and brought forward to the City Council. Project scopes (and therefore costs) will be modified and bids structured to stay within available funding.

Potential Resources for Project	Total
Available Capital Reserves	6,368,350
CTED Grant	418,569
NEC Funds	293,000
Facilities Sinking Fund	1,043,747
Deferred CIP Project	307,000
Proceeds from Sale of Property	3,500,000
Debt Supported by Retiring GO Sources	15,030,000
Less: Reserves for Interest Only Payments	(2,590,000)
Debt Supported by Court Lease Savings	3,400,000
Debt Supported by Utilities	930,000
Debt Supported by Annexation Area	20,100,000
Potential Available towards Facilities	48,800,666

City of Kirkland Outstanding General Obligation Debt

Limited GO Bonds Retirement Schedule

Issue	Outstanding 12/31/2009	Scheduled Retirement (Last Payment)	Annual* Payment
¹ 2001 Cemetery Refund	130,000	12/1/2014	29,930
¹ 2001 City Hall Refund	1,515,000	12/1/2014	348,200
¹ 2001 Parking Garage Refund	1,780,000	12/1/2014	408,055
¹ 2001 McAuliffe	2,065,000	12/1/2021	235,383
1999 Teen Center	660,000	12/1/2019	90,328
Fund Total	6,150,000		1,111,896

UnLimited GO Bonds Retirement Schedule

Issue	Outstanding 12/31/2009	Scheduled Retirement (Last Payment)	Annual* Payment
2001 Public Safety Refund	520,000	12/1/2012	186,253
1995 Forbes Creek	380,000	12/1/2014	82,528
2003 Parks Bond	6,105,000	12/1/2022	640,205
Fund Total	7,005,000		908,986

Total GO Debt**13,155,000****2,020,881**

¹ These four issues were refunded with one issue in 2001 and consolidated to one org key.

* Annual Payment is the annual payment for 2011, actual payments fluctuate from year to year.

CITY OF KIRKLAND, WASHINGTON

Limited Tax General Obligation Bonds

\$1,100,000 Overall Debt Service Target After 2014

Net Debt Service Schedule

Fiscal Year	Principal	Interest ⁽¹⁾	Total P+I	Existing D/S	Net New D/S	Net D/S vs Target ⁽²⁾
12/01/2010	-	-	-	1,108,010.00	1,108,010.00	
12/01/2011	-	648,692.50	648,692.50	1,111,895.00	1,760,587.50	660,587.50
12/01/2012	-	648,692.50	648,692.50	1,108,122.50	1,756,815.00	656,815.00
12/01/2013	-	648,692.50	648,692.50	1,101,475.00	1,750,167.50	650,167.50
12/01/2014	-	648,692.50	648,692.50	1,107,235.00	1,755,927.50	655,927.50
12/01/2015	130,000.00	648,692.50	778,692.50	319,605.00	1,098,297.50	(1,702.50)
12/01/2016	130,000.00	645,962.50	775,962.50	322,667.50	1,098,630.00	(1,370.00)
12/01/2017	135,000.00	642,582.50	777,582.50	319,822.50	1,097,405.00	(2,595.00)
12/01/2018	135,000.00	638,667.50	773,667.50	321,397.50	1,095,065.00	(4,935.00)
12/01/2019	140,000.00	634,482.50	774,482.50	322,137.50	1,096,620.00	(3,380.00)
12/01/2020	235,000.00	630,002.50	865,002.50	232,037.50	1,097,040.00	(2,960.00)
12/01/2021	245,000.00	622,012.50	867,012.50	231,275.00	1,098,287.50	(1,712.50)
12/01/2022	485,000.00	611,600.00	1,096,600.00	-	1,096,600.00	(3,400.00)
12/01/2023	505,000.00	590,987.50	1,095,987.50	-	1,095,987.50	(4,012.50)
12/01/2024	530,000.00	569,525.00	1,099,525.00	-	1,099,525.00	(475.00)
12/01/2025	550,000.00	547,000.00	1,097,000.00	-	1,097,000.00	(3,000.00)
12/01/2026	575,000.00	523,625.00	1,098,625.00	-	1,098,625.00	(1,375.00)
12/01/2027	600,000.00	499,187.50	1,099,187.50	-	1,099,187.50	(812.50)
12/01/2028	625,000.00	473,687.50	1,098,687.50	-	1,098,687.50	(1,312.50)
12/01/2029	650,000.00	447,125.00	1,097,125.00	-	1,097,125.00	(2,875.00)
12/01/2030	680,000.00	419,500.00	1,099,500.00	-	1,099,500.00	(500.00)
12/01/2031	705,000.00	390,600.00	1,095,600.00	-	1,095,600.00	(4,400.00)
12/01/2032	740,000.00	358,875.00	1,098,875.00	-	1,098,875.00	(1,125.00)
12/01/2033	770,000.00	325,575.00	1,095,575.00	-	1,095,575.00	(4,425.00)
12/01/2034	805,000.00	290,925.00	1,095,925.00	-	1,095,925.00	(4,075.00)
12/01/2035	845,000.00	254,700.00	1,099,700.00	-	1,099,700.00	(300.00)
12/01/2036	880,000.00	216,675.00	1,096,675.00	-	1,096,675.00	(3,325.00)
12/01/2037	920,000.00	177,075.00	1,097,075.00	-	1,097,075.00	(2,925.00)
12/01/2038	960,000.00	135,675.00	1,095,675.00	-	1,095,675.00	(4,325.00)
12/01/2039	1,005,000.00	92,475.00	1,097,475.00	-	1,097,475.00	(2,525.00)
12/01/2040	1,050,000.00	47,250.00	1,097,250.00	-	1,097,250.00	(2,750.00)
Total	\$15,030,000.00	\$14,029,235.00	\$29,059,235.00	\$7,605,680.00	\$36,664,915.00	

Notes:

(1) Average coupon rate at 4.40% (current market on May 12, 2010)

(2) Debt service over/under \$1,100,000.